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SUBJECT: SEOUL - PRESS BULLETIN; June 4, 2009

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DOMESTIC DEVELOPMENTS

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ROK foreign affairs and security officials and a U.S. delegation led by Deputy Secretary of State James Steinberg held a series of meetings in Seoul yesterday (All) and agreed to seek a "five-way meeting" with China, Russia and Japan to work out a response to North Korea's nuclear test. The aim of the envisioned meeting will be to end North Korea's recent run of provocations and bring the country back to the dialogue table. (Chosun)

According to a source in Washington, North Korea has produced counterfeit \$100 bills, known as "supernotes" for their high quality, since U.S. financial sanctions were lifted against it in 2007, and part of the forged "supernotes" have been smuggled into the ROK. (Dong-a)

According to the Washington Times, North Korean Gen. O Kuk-ryol, a

confidant of the North's leader Kim Jong-il, has been identified by U.S. and ROK intelligence agencies as a key figure in the covert production and distribution of high-quality counterfeit \$100 bills. (Chosun, JoongAng, Dong-a, Seoul)

#### INTERNATIONAL DEVELOPMENTS

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According to AP, President Barack Obama yesterday telephoned Chinese President Hu Jin-tao to ask for Chinese cooperation in working out a new resolution on sanctions against North Korea. (Chosun, JoongAng, Segye)

The Obama Administration, meanwhile, in a June 2 forum in Washington hosted by Chosun Ilbo and the U.S. Center for Strategic and international Studies (CSIS), presented four principles of North Korea policy: First, the U.S. goal of a complete denuclearization of the Korean Peninsula will remain unchanged; second, the U.S. will not recognize North Korea as a nuclear state; third, the U.S. will not tolerate the North's transfer of nuclear weapons or materials (to other countries); and fourth, the U.S. will do its best to defend its allies in East Asia. (Chosun)

According to a Chinese government source, China has begun overhauling its appeasement policy toward North Korea following the North's nuclear test. This overhaul has been prompted by an order from high-ranking government and party officials, including

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President Hu Jintao. (JoongAng)

On June 2, the State Department expressed reservations about ROK news reports that North Korean leader Kim Jong-il picked his third son, Jung-un, as his successor. Deputy State Department Spokesman Robert Wood was quoted: "We have seen speculative reporting concerning leadership succession in North Korea, but are not in a position to confirm any such reports." (Chosun, Hankook, Hankyoreh)

#### MEDIA ANALYSIS

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-North Korea

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##### - Deputy Secretary Steinberg's Visit

All ROK media covered yesterday's meetings in Seoul between a U.S. delegation led by Deputy Secretary of State James Steinberg and ROK foreign and security officials.

Conservative Chosun Ilbo reported that the ROK and U.S. officials reached agreement to seek a "five-way meeting" with China, Russia and Japan to work out a unified response to North Korea's nuclear test. The report went on to say that the aim of the envisioned meeting will be to end North Korea's recent run of provocations and to return it to the dialogue table. The report quoted a senior ROK official as saying, apparently mindful of China, which may be unwilling to isolate or annoy Pyongyang: "The five-way meeting will not seek a separate and permanent dialogue channel but will be temporary within the framework of the Six-Party Talks to promote their resumption."

Right-of-center JoongAng Ilbo, noting the inclusion of Under Secretary of Treasury for Terrorism and Financial Intelligence Stuart Levey in the U.S. delegation, speculated that measures for the ROK and the U.S. to block the flow of money into North Korea will likely take concrete shape during this visit by the U.S. delegation.

##### - Aftermath of North Korea's Nuclear Test

Citing a Chinese government source, right-of-center JoongAng Ilbo front-paged a report that China has begun overhauling its appeasement policy toward North Korea following the North's nuclear test, under orders from high-ranking government and party officials, including President Hu Jintao. The report quoted the Chinese

source: "The Chinese government is especially upset that the nuclear test has created a sense of anxiety among its citizens ... over possible exposure to radioactivity," and commented that Chinese leaders have now had to realize that the nuclear problem is now in their backyard.

- Fake N. Korean "Supernotes"

Conservative Dong-a Ilbo gave front-page play to a report citing a source in Washington that North Korea has produced counterfeit 100-U.S. dollar bills (also known as "supernotes" for their high quality) since U.S. financial sanctions were lifted against it in 2007 and that part of the forged "super notes" have been smuggled into the ROK.

The source was quoted: "Seoul and Washington have conducted a joint investigation since police have arrested those who attempted to circulate super notes in the ROK in November last year. We've kept a close eye on the North's forgery, since it is likely to affect both inter-Korean ties and relations between Washington and Pyongyang."

Dong-a Ilbo editorialized: "Counterfeiting U.S. dollars, a key currency, and circulating them is a crime disturbing the world's economic order and a serious infringement on (the nation's) sovereignty. If it is true that North Korean Gen. O Kuk-ryol, an influential figure in the North Korean regime, has led this activity, it is a state-perpetrated crime that has wide-ranging repercussions. The situation is so serious that Under Secretary of

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Treasury Stuart Levey, who had led a freeze of North Korean accounts at Macau-based Banco Delta Asia, has come to Seoul as part of the USG delegation to discuss countermeasures against North Korea's nuclear test. North Korea's production and distribution of fake dollars ... could be related to the nuclear and missile development of North Korea, a nation on the verge of collapse."

President Obama's Visit to the Middle East  
Conservative Chosun Ilbo, in an inside-page article entitled "Obama's Visit to the Middle East... A First Step toward Reconciliation?," observed that the atmosphere in the Arab world toward Obama's visit is favorable but that if he fails to address the "issue of Israel" (conflicts between Israel and Arab nations), Obama's words will become just rhetoric.

OPINIONS/EDITORIALS

NORTH KOREA'S FAKE U.S. DOLLAR BILLS  
(Dong-a Ilbo, June 4, 2009, Page 31)

Suspicion about North Korea's dollar counterfeiting has once again emerged. The Washington Times recently reported that North Korean General O Kuk-ryol, the Vice Chairman of the country's National Defense Commission, (has and) continues to play a key role in producing and distributing counterfeit \$100 bills. Additionally, it was also recently confirmed that 9,904 \$100counterfeit U.S. notes were found in Busan last November. The notes found in Busan are called supernotes, which are so carefully produced that even counterfeit money detectors at banks cannot tell them apart from real U.S. banknotes.

North Korea has long been suspected of being behind the production of supernotes. North Korea's (alleged) forgery of U.S. dollars prompted the U.S. to freeze \$25 million of North Korean funds at the Macau-based Banco Delta Asia (BDA). In 1994, the U.S. arrested a North Korean who deposited \$250,000 worth of fake dollars at BDA, and in 2005, it froze all North Korean accounts there. Although the U.S. returned the BDA funds to the North in order to resume the Six-Party Talks, it has not relaxed its monitoring of North Korea's illicit activities.

Counterfeiting U.S. dollars, a key currency, and circulating them is a crime which disturbs the international economic order and acts as a serious infringement into the sovereignty (of the United States.

If it is true that North Korean Gen. O Kuk-ryol, an influential figure in the North Korean regime, has led this activity, it is a state-perpetrated crime that has wide-ranging repercussions. The situation is so serious that Under Secretary of Treasury Stuart Levey, who led the freeze of North Korean accounts at BDA, has come to Seoul as part of the USG delegation to discuss countermeasures against North Korea's (second) nuclear test.

North Korea's production and distribution of fake dollars is directly linked to ROK security. It could be related to the nuclear and missile development of North Korea, a nation on the verge of collapse. The U.S. Congressional Research Service said in 2005 that North Korea used money made from illicit industries, such as trafficking drugs and counterfeiting dollars and cigarettes, for its nuclear and missile development. It is also suspicious how the North secured the money needed to prepare a third hereditary transfer of power. Cash flows to the North through the Kaesong Industrial Complex would not be enough to bolster the North Korean economy, which is still in dismal condition.

Fortunately, those who attempted to circulate fake dollars in the ROK have been arrested. (The ROK) should track down who manufactured and provided these fake banknotes through a joint investigation with the U.S. And we should actively cooperate with the U.S. to strengthen the country's monitoring system and (help it to) block the flow of the raw materials (needed to produce) fake dollars into North Korea so that the source of money used to sustain the Kim Jong-il regime can be cut off.

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#### FEATURES

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#### CHINA RECONSIDERING NORTH POLICIES AFTER NUCLEAR TEST (JoongAng Daily, June 4, 2009)

By Reporter Chang Se-jung, Yoo Jee-ho

A Chinese government source told the JoongAng Ilbo yesterday that China has begun overhauling its North Korean policy following the North's nuclear test last week.

The source said he believes Chinese President Hu Jintao wielded some influence on this change of course. Hu is also the chair of the Foreign Affairs Leading Small Group, a Communist Party organ that handles foreign policies of the country.

Xinhua News reported that Hu spoke to U.S. President Barack Obama by phone to discuss North Korea, and the agency said the U.S. wanted to "boost coordination and cooperation with China on a broad range of major issues." China has for decades maintained a soft line on North Korea but has slowly started turning its back after Pyongyang carried out its second nuclear test.

Following the test, a government source said, "The Communist Party's international liaison department, the Defense Ministry and the Commerce Ministry have begun reviewing their North Korean policy." The source added that regional governments of Jilin and Liaoning Provinces, the two areas directly affected by the nuclear test, were also part of the general review. Jilin borders North Korea to the east and Liaoning to the southeast.

"The result of their discussions will be reported to Hu Jintao, and the party's politburo standing committee will determine the final direction," the source said. "There's no guarantee this review process will end any time soon, but it will likely have a huge impact on China's mid- to long-term North Korean policy."

A diplomatic source in Beijing said he has detected a change of tone among Korean experts in China.

"In the past, those experts just regurgitated the official Chinese position on North Korea," the source said. "But recently, they're also incorporating views of foreign analysts on China's North Korean policy, and they're providing the local media with diverse

perspectives.

"This change has been due to an order from the Communist Party's Propaganda Department and other high-ranking officials."

According to Reuters, Zhan Debin, an expert on Korea at Fudan University in Shanghai, wrote in the paper Global Times that North Korea is a "strategic burden" for China.

"If this continues, China will not be able to stall international expectations by saying that North Korea doesn't listen or that we have no influence," wrote Zhan.

"If Pyongyang continues raising the international stakes," Zhan added, "war cannot be ruled out, and North Korea will either continue to be trapped in a Cold War (mentality) or will swiftly disappear."

The diplomatic source said the Chinese leadership "was quite angry" with North Korea because it gave China only 29 minutes' notice "and proceeded with the test before China could prepare its official stance."

In the immediate aftermath of the test, Xi Jinping, China's vice president and vice chair of the Foreign Affairs Leading Small Group, strongly condemned the test during his Beijing meeting with ROK Defense Minister Lee Sang-hee.

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The source added that the Chinese government is especially upset that the test has created a sense of anxiety among its citizens, especially those in Jilin Province, over possible exposure to radioactivity. In short, Chinese leaders have had to realize the nuclear problem is now in their backyard.

STEINBERG CALLS FOR NORTH KOREA TO RETURN TO NEGOTIATIONS FOR DE-NUCLEARIZATION

(Hankook Ilbo, June 4, 2009, Front page)

By Reporter Jeong Sang-won

During a June 3 meeting with First Vice Minister Kwon Jong-rak, U.S. Deputy Secretary of State James Steinberg reaffirmed that the U.S. will not continue to reward North Korea in order to bring it back to the negotiating table, and it also will not rush to enter into negotiations with the North.

Referring to (possible) financial sanctions on North Korea, diplomatic authorities said that (the U.S.) intends to review whether to take additional measures after considering the results of discussion at the UN Security Council.

After the meeting, the Deputy Secretary said, "Now is the time for North Korea, rather than continuing to take more dangerous and provocative actions, to get back on the path of negotiations towards de-nuclearization." He added, "If North Koreans are prepared to change course to enter an effective dialogue, that will really lead to the complete and verifiable denuclearization of the Peninsula." First Vice Minister Kwon said that both countries shared the view that China could play a great role in reversing the course of North Korea.

Deputy Secretary Steinberg arrived in Korea on June 2 and joined Foreign Minister Yun Myung-hwan for lunch after his meeting with First Vice Minister Kwon. Steinberg also made a courtesy visit to Defense Minister Lee Sang-hee. On June 4, the Deputy Secretary will also pay a courtesy visit to President Lee Myung-bak, and will join Unification Minister Hyun In-taek for breakfast. He will also have a discussion session with Seoul National University students. The U.S. delegation led by Deputy Secretary Steinberg will depart for China on June 5.

U.S. Special Representative for North Korea Policy Steven Bosworth met separately with the ROK's Chief Delegate to the Six-Party Talks

Wi Sung-lac. During the meeting, Bosworth said that President Obama has supported dialogue and negotiations from the beginning. He added that in the end, North Korea will realize that dialogue is beneficial for the country.

In an interview with France's LeMonde newspaper, Wi said that (the international community) should respond strongly to North Korea's provocations and sanctions must follow. He added, however, that the door for dialogue (with North Korea) should remain open and that (there is room for) dialogue to resume even after imposing sanctions.

ROK AND U.S. SEEK FIVE-WAY MEETING ON NORTH KOREA  
(Chosun Ilbo, June 4, 2009, Page 6)

By Reporter Lim Min-hyeok

The U.S. and the ROK are intensifying international efforts to sanction North Korea in the wake of its second nuclear test and ultimately bring North Korea back to the negotiating table.

ROK foreign affairs and security policymakers and the U.S. delegation led by U.S. Deputy Secretary of State James Steinberg had a series of meetings in Seoul on June 3. The two sides agreed to seek a five-way meeting involving the ROK, the U.S., China, Russia and Japan. The aim of the envisioned meeting will be to end North Korea's recent run of provocations and to return it to the dialogue

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table.

According to the Associated Press news agency, ahead of the UN Security Council's adoption of a resolution sanctioning North Korea, U.S. President Barack Obama called Chinese President Hu Jintao to ask for China's cooperation. Diplomatic sources in Beijing noted that even though details are not known, Obama requested understanding and cooperation from the Chinese leadership over the UN Security Council's sanctions on North Korea. A Chinese newspaper agency cited President Hu as saying during a telephone conversation that both countries have more frequent exchanges at all levels and strengthened cooperation in all areas.

An ROK official said that in the five-way meeting, chief negotiators from five countries, excluding North Korea, will gather to address the North Korean nuclear issue with a long-term strategy. The official added that the five-way meeting will be less formal.

A similar five-way meeting was previously proposed when the Six-Party Talks were in a stalemate, but this is the first time it is actually being pushed for. Through consultations by the abovementioned five nations, the regional partners could urge North Korea back to the Six-Party Talks and (encourage it) to stop conducting nuclear tests and launching missiles, all while putting pressure on North Korea more directly than the UN Security Council resolution.

The ROK, the U.S. and Japan show support for the five-way meeting but China's position is critical. China has been opposed to the five-party meeting, saying that it is not desirable to isolate or annoy Pyongyang. Some people in China have raised concerns that this (five-way meeting) may undermine the authority of China as a presiding country of the Six-Party Talks. However, diplomatic observers believe that now that North Korea has conducted another nuclear test, China will not voice its opposition (to the five-way meeting) as fiercely as before.

Apparently mindful of China, a senior ROK official said that the five-way meeting will not seek a separate and permanent dialogue channel but will be temporary within the framework of the Six-Party Talks to promote their resumption. Another ROK official said that while China may disapprove of the five-way meeting, the strong desire on the part of the ROK, the U.S. and Japan to undertake this option may prompt China to more actively exert its influence on North Korea.

